

Nova Scotia Municipal Finance Corporation

2004 - 2005 Business Plan

TABLE of CONTENTS

	Page Number
Introduction	2
Mission	3
Planning context	3
Strategic goals	4
Core business areas	5
A) Low cost financing for clients	
B) Prudent financial management	
C) Improved methods and products	
D) Building financial knowledge	
Priorities for the 2004-05 fiscal year	6
A) Low cost financing for clients	
B) Prudent financial management	
C) Improved methods and products	
D) Building financial knowledge	
Budget Context Chart	7
Balance Sheet (Audited) of the Corporation (as at March 31, 2003)	8
Statement of Revenue, Expenses and Reserve Fund (Audited) (year ended March 31, 2003)	9
Outcome/Performance measures	10

Introduction

The Nova Scotia Municipal Finance Corporation ("MFC") was established by an Act of the Legislature of the Province of Nova Scotia in 1979. The Corporation's purpose is to provide low cost financing to its clients which includes municipalities, municipal enterprises, school boards and hospitals. All municipalities, municipal enterprises and school boards must finance, and hospitals may finance their external capital requirements through the Corporation. Exceptions occur for capital projects funded directly by the Province of Nova Scotia (e.g., most school board capital projects), short term financing, and certain projects for which funds may be borrowed from other governments.

The MFC concept is widely used in Canadian provinces as a cost effective, efficient means of raising long term debenture funds to finance municipal capital projects. Studies have shown that municipalities regardless of their credit ratings receive interest savings from MFC participation and municipalities benefit from savings in the cost of administration on outstanding debenture issues.

The Corporation is governed by a Board of Directors appointed by the Governor-in-Council. Forty percent are appointed on the recommendation of the Union of Nova Scotia Municipalities. Three full time staff of the Corporation are supported through staff and resources from the provincial Departments of Finance, Justice, and Service Nova Scotia and Municipal Relations.

Mission Statement:

To provide financing to its clients for approved capital projects at competitive rates, within acceptable risk parameters, and to provide advice and assistance to clients regarding financial management.

Planning Context:

The Corporation faces a number of challenges and opportunities in meeting its strategic goals in the upcoming year.

- The MFC must ensure it has access to capital markets and that it has the financial and administrative ability to meet local government demand for capital infrastructure funding.
- Identifying client needs and responding to them. Local governments in Nova Scotia are encouraged to undertake long term capital planning and explore financing options.
- Building partnerships with organizations such as the Federation of Canadian Municipalities to provide a conduit for low-cost loans through the Green Fund.
- Keeping abreast of developments in local government capital finance. As a specialist organization, the MFC is challenged to develop, maintain and demonstrate expertise in local government capital finance.
- Maintaining financial self sufficiency. In order to meet its mandate, the Corporation must remain economically viable in both the short and long terms. This includes a matching of assets and liabilities both to amount and maturity, maintaining banking arrangements and credit facilities, credit risk, adequate reserves, and the ability to manage administration expenses within its budget.

The major risk to the corporation is the availability of financial resources needed to carry out its mandate. Some resources are directly under the control of the Board whereas others are provided by provincial departments. The MFC will continue to work with these provincial departments to align both sets of priorities.

Strategic Goals:

- To work with clients, the Province and the investment community in providing capital financing to our clients at competitive rates, within acceptable risk parameters, for their particular debt structure and timing needs.
- To provide a sustainable source of financing to clients through prudent management of all financial aspects of the Corporation, which includes credit risk and asset/liability management.
- To explore and develop new methods and products for meeting the needs of our clients through contact with the investment community, the public sector and academic research.
- To help build financial management knowledge in municipalities that promote municipal capital project planning and financing.

These strategic goals assist the MFC in meeting its mission of providing low cost municipal financing for capital infrastructure and long term financial planning, and support the Provincial Government's priorities of economy, jobs and growth. Capital infrastructure is a major component of economic development in both attracting and retaining business investment and promoting communities that are attractive places to live.

Core Business Areas:**A. Providing low-cost funds to clients**

- Provide financing for clients' approved funding requirements by pooling these requirements and issuing debentures. Pooling of capital requirements allows the MFC to issue debentures in the capital markets at rates lower than if single issues were placed for clients.
- Provide separate issues for single capital projects in amounts sufficient to permit a public issue, provided they do not preclude a pooled issue for other clients.
- Perform the intermediary/conduit role in enabling municipalities to access low cost loans from national programs and non profit organizations, such as the Federation of Canadian Municipalities' Green Fund.

- B. Prudent financial management to ensure a sustainable source of low cost funding for local governments in Nova Scotia
- To ensure that an acceptable process is in place for evaluating the credit worthiness of the loans made by the Corporation.
 - To ensure the Corporation's assets and liabilities are matched in both amount and maturity.
 - Prudent administration of the Corporation's financial resources to ensure that the Corporation's administrative expenses and reserve balances are within approved limits.
- C. Explore improved methods and products in meeting client needs
- Maintain communication links with the investment community, public sector finance practitioners and academics and carry out research as required to enable the Corporation to respond to changing client needs.
 - Prepare and review policy recommendations regarding the Corporation's use of financial innovation techniques and instruments.
 - Assist local governments in evaluating alternative methods of raising capital project financing including partnerships with the private sector.
- D. To build financial management knowledge by encouraging municipal governments to adopt and maintain a professional approach to capital project planning and finance.
- To partner with municipal clients on the topic of capital planning and finance through the identification of relevant professional association resources.
 - Work with Service Nova Scotia and Municipal Relations and the Nova Scotia Association of Municipal Administrators in promoting an informed and responsible approach to capital planning and finance.

Priorities for Fiscal 2004-05

The following details the actions, products and services that the MFC intends to carry out in order to fulfil the Corporation's mission and meet its strategic goals.

- A. Provide low-cost funds to clients
 - To meet all approved requests for debenture funding by issuing debentures for the amount required to meet municipal borrowing requirements (expected to be in the fifty to sixty million dollar range) and lending a similar amount to municipal units and enterprises.
 - Pooling of capital requirements allows the MFC to access capital markets and achieve pricing based off the Province of Nova Scotia spread.
 - To facilitate the provision of low cost Federation of Canadian Municipalities Green Fund loans, short term loans and bridge financing requests within established policies.
 - To consider the capital financing needs of non-municipal borrowers when approached by Regional School Boards and District Health Authorities.
- B. Prudent financial management to ensure a sustainable source of low cost funding for local governments in Nova Scotia
 - Obtain verification of credit worthiness from the Department of Service Nova Scotia & Municipal Relations (for municipal borrowers) prior to setting the parameters for pooled issues.
 - Match the amount, term and timing of MFC debentures and loans to units.
 - Management of the MFC's financial resources (budget and reserves) as per policies established by the Corporation's Board of Directors.
- C. Explore improved methods and products in meeting client needs
 - Consultation with municipal officials on capital financing needs and the preferred features in the debentures issued through the MFC.
 - Consult with clients on additional financial services which they may require.
 - Work with potential non municipal clients on an 'as requested' basis to identify the best ways of achieving client financing needs and MFC credit quality considerations.
 - Undertake a MFC role / program evaluation initiative with MFC clients and other stakeholders.

- D. To build financial management knowledge by encouraging municipal governments to adopt and maintain a professional approach to capital project planning and finance.
- Continue to provide a leadership role in the Government Finance Officers Association (GFOA)/Association of Municipal Administrators of Nova Scotia (AMA) initiative to promote the financial and budgeting policies of the GFOA for Canadian Municipalities to municipal governments in Nova Scotia.
 - Establish committees, as required by the Board, to study the merits of financial innovation regarding the introduction of new products and services.
 - Work with the Corporation's lead managers and other members of the investment community, staff of the Nova Scotia Department of Finance, other Municipal Finance Corporations, and others involved in municipal capital financing, to identify evolving local government financial needs and the optimum means of satisfying them.

Budget Context Chart

Nova Scotia Municipal Finance Corporation Estimated Budget Expenditures			
	2003-04 Estimate	2003-04 Forecast	2004-05 Budget
	\$ Thousands		
Total Program Expenses - Gross Current	337.0	330.1	340.5
Net Program Expenses - Net of Recoveries* (see note below)	0.0	0.0	0.0
Salaries and Benefits - Gross	241.1	240.2	232.8
Funded Staff (FTE'S) - Gross	3	3	3

* Note: The MFC is completely self funded. The costs of administration are covered through an administrative fee that is levied on all municipal loans and from interest revenue earned on short term investments.

Nova Scotia Municipal Finance Corporation Balance Sheet (as at March 31, 2003)
(Audited)

ASSETS

Current Assets:

Cash	\$ 129,883
Short term investments at amortized cost	5,461,055
Accrued interest receivable	10,371,094
Other receivables	1,904
Principal due within one year on loans to units	63,054,835

Long-term Assets:

Loans to units	482,888,121
Less principal included in current assets	(63,054,835)
Investments at amortized costs	0

Deferred Charges:

Discount on debenture debt	2,562,324
less accumulated amortization	(1,592,606)

Total Assets **\$ 499,821,775**

Liabilities and Equity

Current Liabilities:

Accounts payable	\$ 47,199
Due to municipal units	1,175,055
Accrued interest payable	10,344,853
Principal due within one year on debenture debt	62,965,496
Accrued public service award	42,573

Long-term Debt:

Debentures Payable	482,460,750
Less principal included in current liabilities	(62,965,496)

Deferred Credits:

Discount on loans to units	2,557,525
Less accumulated amortization	(1,593,637)

Equity

Reserve Fund	4,787,457
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Total Liabilities and Equity **\$ 499,821,775**

Nova Scotia Municipal Finance Corporation
Statement of Revenue, Expenses and Reserve Fund (year ended March 31, 2003)
(Audited)

Revenue

Interest on loans to units	\$ 30,454,163
Amortization of discount on loans to units	250,185
Interest on short term investments	147,069
Current discount on loans to units	<u>609,014</u>
Total Revenue	<u>31,460,431</u>

Expenses

Interest on debenture debt and short term loans	30,442,061
Amortization of discount on debenture debt	252,257
Debenture issue expense	373,221
Administrative expense	288,964
Total Expenses	<u>31,356,503</u>

Net Revenue 103,928

Reserve Fund, Beginning of Year 4,683,529

Reserve Fund, End of Year \$ 4,787,457

Nova Scotia Municipal Finance Corporation

Core Business Area: Low cost financing for clients					
OUTCOME (immediate or intermediate)	MEASURE (outcome-based; quality, efficiency/productivity; cost-effectiveness)	DATA (for baseline & subsequent years)	TARGET 2004-05	STRATEGIES to achieve target	
To provide low cost financing to clients in a timely manner	Percentage of requests for financing (both long term and short term) that received MFC financing	100%	100%	Ensure adequate credit approval system	
	Average number of weeks between long term loan request deadline & pooled debenture issue pricing	6 to 9	3 to 6	Ensure credit enhancement and provincial approvals for borrowing and guarantees are in place at the beginning of each fiscal year.	
	Average number of weeks between short term loan requests and receipt of funds	2 to 3	2 to 3	<i>Note: Market conditions and trends play a major role in the timing of debenture issue pricing.</i>	
Low cost financing for clients	Quality of credit enhancement used. Spread off Province of N.S. in Basis Points (BP) that are similar to MFC spreads in other Atlantic Provinces. 5 year terms 10 year terms	Same Spreads 6 BP 11 BP	Maintain Spreads	Maintain quality of portfolio, increase profile of MFC credit quality, work with other municipal issuers to reduce the spreads between provincial & municipal issues	

Nova Scotia Municipal Finance Corporation

Core Business Area: Prudent financial management of all of the Corporation's resources				
OUTCOME (intermediate or intermediate)	MEASURE (outcome-based, quality, efficiency/productivity, cost-effectiveness)	DATA (for baseline & subsequent years)	TARGET 2004-05	STRATEGIES to achieve target
Ensure a sustainable source of funding is available for financing requests from clients and to ensure the operation of the Corporation.	Client default rate. Default is defined as failing to make a principal or interest payment.	0	0	Ensure that all loans are credit worthy. Review the current credit worthiness procedure to ensure it remains 100% effective. Verify credit worthiness of loan applications with SNS&MR prior to establishing pooled issue limits.
	Matching of assets and liabilities. Similarity of aggregate amounts, terms and timing of debentures and loans.	Assets and liabilities are matched to term and timing.	Maintain matched amounts.	Match the term and timing of MFC debentures and loans to clients.
	Reserve balance and equity position of the Corporation	Recording net income at year end.	Maintain positive financial position.	Monthly financial forecasts to the Board.

Nova Scotia Municipal Finance Corporation

Core Business Area: Improved methods and products in meeting clients needs.				
OUTCOME <i>(intermediate or intermediate)</i>	MEASURE <i>(outcome-based; quality, efficiency/productivity, cost-effectiveness)</i>	DATA <i>(for baseline & subsequent years)</i>	TARGET 2004-05	STRATEGIES to achieve target
MFC client awareness of new financial products and features that may help municipal units.	Percentage of municipal units that are satisfied with products being offered by the MFC	35% (field visits)	75% (contact with municipal clients). No baseline data for client satisfaction survey	Field visits with clients. Presentations at AMA regional meetings and conferences. Conduct a client satisfaction survey in 2004-05 to establish baseline data and new targets.
Improved products that respond to clients needs	Effective programs directed at clients needs.	n/a	2004-05 would establish the baseline data	Undertake MFC role / program evaluation with MFC clients and other stakeholders.

Nova Scotia Municipal Finance Corporation

Core Business Area: To build financial management knowledge by encouraging municipal government to adopt and maintain a professional approach to capital project planning and finance.				
OUTCOME (intermediate or intermediate)	MEASURE (outcome-based; quality, efficiency/productivity, cost-effectiveness)	DATA (for baseline & subsequent years)	TARGET 2004-05	STRATEGIES to achieve target
Increased financial management capacity in municipal units. Use of best practices and/or recommended practices in financial management decision making.	Increased awareness of best practices for financial management.	4 best practices developed	Additional four practices developed	Capacity building through training, education and professional development. Continued development of GFOA best practices for NS.
	Broader access to financial resources - efficient use of resources and building of networks among financial administrators.	MFC website contains basic information on the Corporation	Post recommended practices on the web site and programs offered.	Enhanced use of MFC and/or AMA web site for sharing of best practices and financial information
	Exposure to conferences that develop and promote best practices in financial management	Sponsor a professional financial administrator as nominated by a joint AMA/MFC Committee	Maintain sponsorship	Continue to offer financial assistance in sponsoring professional financial administrator to attend the International GFOA Conference on an annual basis.

Note: These measures have been changed from the 2003-04 Business Plan. The measures contained in the 2003-04 Business Plan were outside of the control of the Corporation. The measures could only be acted upon through a decision of Council. The Corporation could influence those decisions through education. However, it can not control the outcome.

